

## Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 EA-07 NEA-10 ISO-00 CAB-02 CIAE-00

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R 110640Z FEB 76

FM AMEMBASSY COLOMBO

TO SECSTATE WASHDC 4222

AMEMBASSY LONDON

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E.O. 11652:N/A

TAGS: EAIR, CE

SUBJECT: CIVAIR: AIR CEYLON TRI STAR LEASE AND CONTINUED INTEREST  
IN AIRCRAFT PURCHASE

REF: A) BANGKOK 1569 B) COLOMBO 3832

1. SUMMARY: IN LAST TWO WEEKS WE HAVE REVIEWED AIR CRYLON'S  
SITUATION AND PLANS WITH AIR CEYLON GENERAL MANAGER. THIS  
IS STIMULATED BY TEXTENSIVE PRESS DISCUSSION OF AIR CEYLON  
TRI STAR LEASE, RELATIONS WITH AIR SIAM AND TERMINATION  
OF AGREEMENT WITH FRENCH UTA.GENERAL MANAGER CONFIRMS THAT  
AIR CEYLON, IN PARTNERSHIP WITH AIR SIAM, HAS LEASED  
TRI STAR L1011 THROUGH LOCKHEED FROM PACIFIC SOUTHWEST  
AIRWAYS WITH FINANCING ARRANGED THROUGH US FINANCIER FIRM,  
E.F.HUTTON. AIR CEYLON WILL HAVE PAID OFF PURCHASE OF  
DC 8 BY MARCH AND WILL TERMINATE THEIR AGREEMENT WITH  
UTA IN SEPTEMBER 1976, SIX MONTHS EARLY. ALTHOUGH TRI  
STAR LEASE WILL COVER AIR CEYLON'S REQUIREMENT FOR WIDE  
BODY JET FOR SERVICE TO NORTH EUROPE AND THUS  
ELIMINATE NEAR TERM POTENTIAL FOR DC 10 PURCHASE,  
AIR CEYLON STILL INTERESTED IN DC 9/BOEING 727  
SIZE JET FOR REGIONAL SERVICE. END SUMMARY.

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2. SINCE REF A RECEIVED,LOCAL ENGLISH PRESS HAS HAD ARTICLE ALMOST DAILY ABOUT AIR CRYLON AFFAIRS INCLUDING: AIR SIAM EXTREME FINANCIAL STRESS DUE LOSS HONG KONG ROUTE; AIR CEYLON NEGOTIATIONS WITH UTA; AND DESCRIPTIONS OF RECENT ARTICLES IN FAR EASTERN TOURIST PUBLICATIONS STRONGLY CRITICAL OF AIR CEYLON RECORD AND MANAGEMENT.

3. DRAWING ON THESE ARTICLES EMBASSY OFFICER HAS REVIEWED IN DETAIL AIR CRYLON'S CURRENT SITUATION AND PLANS THAT MIGHT INVOLVE RELATIONS WITH AMERICAN AIRLINES OR AIRCRAFT MANUFACTURERS. THROUGHOUT DISCUSSIONS, AIR CEYLON GENERAL MANAGER, E. WICKREMARATNE, WHO HAS BEEN FORTHCOMING AND COOPERATIVE,HAS EXPRESSED AIR CEYLON'S DESIRE FOR ANY POTENTIAL BUSINESS RELATIONSHIP WITH AMERICAN INTERESTS THAT WOULD HELP CEYLON EXPAND AND IMPROVE SERVICES.

4. WITH RESPECT TOTRI STAR LEASE WICKREMARATNE CONFIRMED LOCAL PRESS STORY THAT AIR CEYLON, IN PARTNERSHIP WITH AIR SIAM, HAS SIGNED LEASE FOR TRI STAR FROM PACIFIC SOUTHWEST AIRLINES WHICH WILL BE JOINTLY OPERATED,POSSIBLY BY MID-1976, ON BANGKOK-COLOMBO-NORTHERN EUROPE ROUTING.AIR CEYLON WAS VERY CONCERNED ABOUT AIR SIAM'S FINANCIAL DISTRESS FOLLOWING CANCELLATION HONG KONG RIGHTS. IN LAST INTERVIEW (FEBRUARY 6) WICKREMARATNE EXPRESSED GREAT RELIEF ON SEEING FEBRUARY 4 BANGKOK NEWSPAPER HEADLINING THAI GOVERNMENT'S DECISION TO ZONE ROUTES BETWEEN AIR SIAM AND THAI INTERNATIONAL AND ASSIGNING TOKYO TO FORMER. HOWEVER, IN CONFIDENCE, WICKREMARATNE SAID THAT AIR CEYLON'S LINKS WITH AIR SIAM AND ESPECIALLY WITH CHAIRMAN VIRACHAI VANNUKUL ARE SUCH THAT IF THAI POLITICAL CONDITIONS OR LOSS OF BUSINESS MAKE AIR SIAM UNPROFITABLE IN ITS PRESENT FORM THERE HAD BEEN DISCUSSIONS ABOUT SHIFTING AIR SIAM OPERATIONS HEADQUARTERS TO COLOMBO OR EVEN HAVING AIR SIAM MANAGEMENT TEAM OPERATE AIR CEYLON.

5. WITH RESPECT TO AIR CEYLON'S PRESENT DC 8 PURCHASED UNDER 1971 FINANCING AND MARKETING AGREEMENT WITH UTA, LIMITED OFFICIAL USE

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WICKREMARATNE CONFIRMED PRESS ACCOUNT THAT AIRCRAFT WOULD BE PAID OFF AND THEREFORE FULLY OWNED BY AIR CEYLON IN APRIL AND THAT AGREEMENT WITH UTA WOULD BE TERMINATED IN MARCH 1976. THEREFORE, AIR CEYLON WILL OPERATE DC 8 BANGKOK-COLOMBO-LONDON ROUTING ON ITS OWN BUT WITH MARKETING AND RESERVATION ASSISTANCE FROM ANOTHER, UNSPECIFIED, AIRLINE.

6. CONCERNING AIR CEYLON'S INTEREST IN FURTHER EXPANSION OF SERVICE WICKREMARATNE SAID THEY HAVE NOT BEEN ABLE TO DISPOSE OF TRIDENT TO PRC OR ANY OTHER POTENTIAL BUYER. AIR CEYLON NOW BELIEVES ONLY NEAR TERM POTENTIAL FOR PURCHASE MEDIUM SIZED JET FOR REGIONAL SERVICE (MADRAS, BOMBAY, ETC.) WOULD BE WORKING OUT PACKAGE SIMILAR TO TRI STAR ARRANGEMENT BUT INVOLVING PURCHASE OF DC9/BOEING 727 TYPE AIRCRAFT ALONG WITH DEAL TO DISPOSE OF TRIDENT AND INCLUDING ASSISTANCE IN TRAINING, MAINTENANCE AND MANAGEMENT. HOWEVER, IT APPEARED THAT AIR CEYLON WILL NOT ACT ON REPLACING TRIDENT UNTIL OTHER LONG ROUTE ARRANGEMENTS COMPLETED AND FUNCTIONING.

7. MCDONNELL DUGLAS REPRESENTATIVE VISITED AIR CEYLON FEBRUARY 6 WHILE WE UNDERSTAND BOEING ALSO IN TOUCH BY CORRESPONDENCE.  
VAN HOLLEN

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## Message Attributes

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